

Global Navigator

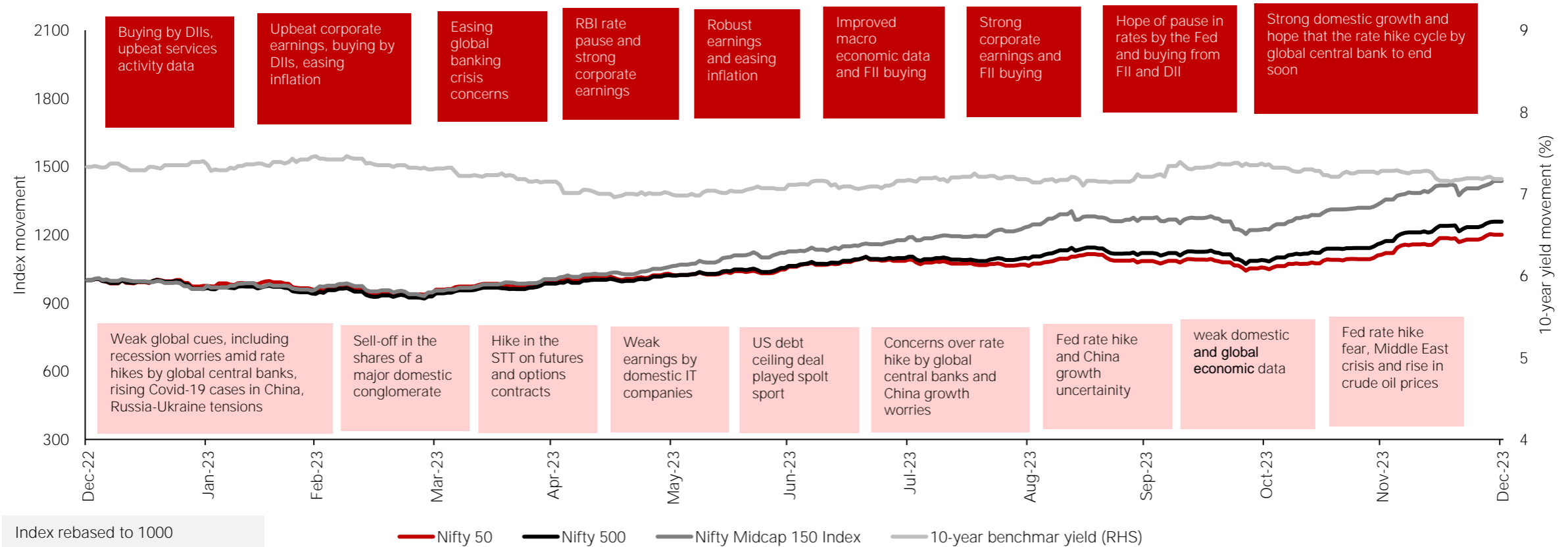
January 2024



HSBC Mutual Fund

Looking back – Events and India Markets

Nifty 50 rose on strong domestic growth data and hope of rate cuts by global central bank soon in 2024



Source: CRISIL, Data as on 29 December 2023

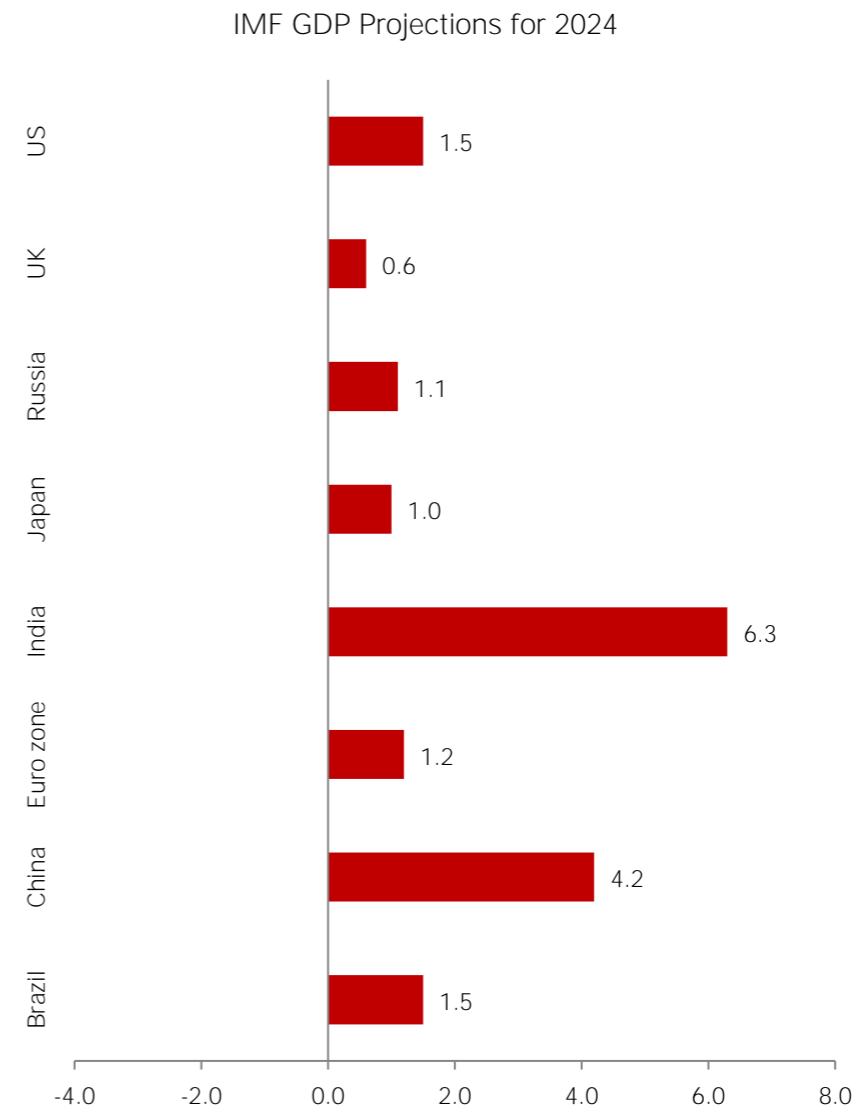
Key events and performance of the Indian market (Nifty 50 and Nifty 500 rebased to 1000) in December 2022 – 29 December, 2023

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Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may have been discussed in this report and should understand that the views regarding future prospects may or may not be realised.

Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. RBI – Reserve Bank of India, FII- Foreign Institutional Investors, DII- Domestic Institutional Investors, US- United States, Fed- Federal Reserve, STT- Security Transaction Tax

	GDP		Inflation		Industrial Growth	
	Current	Previous	Current	Previous	Current	Previous
US	4.9% Q3 2023	2.1% Q2 2023	3.1% Nov'23	3.2% Oct'23	-0.39% Nov'23	-1% Oct'23
Eurozone	0.1% Q3 2023	0.6% Q2 2023	2.4% Nov'23	2.9% Oct'23	-6.6% Oct'23	-6.8% Sep'23
UK	0.3% Q3 2023	0.3% Q2 2023	3.9% Nov'23	4.6% Oct'23	0.4% Oct'23	1.5% Sep'23
China	4.9% Q3 2023	6.3% Q2 2023	-0.5% Oct'23	-0.2% Sep'23	8.6% Nov'23	4.6% Oct'23
Japan	-2.9% Q3 2023	3.6% Q2 2023	2.8% Nov'23	3.3% Oct'23	-1.4% Oct'23	1.1% Sep'23
India	7.6% Q3 2023	7.8% Q2 2023	5.55% Nov'23	4.87% Oct'23	11.7% Oct'23	5.8% Sep'23
Major Global Central Bank			Latest Key Interest rate			
US Federal Reserve			5.25-5.5%			
Bank of England			5.25%			
European Central Bank			4.50%			
Bank of Japan			-0.10%			
India			6.50%			

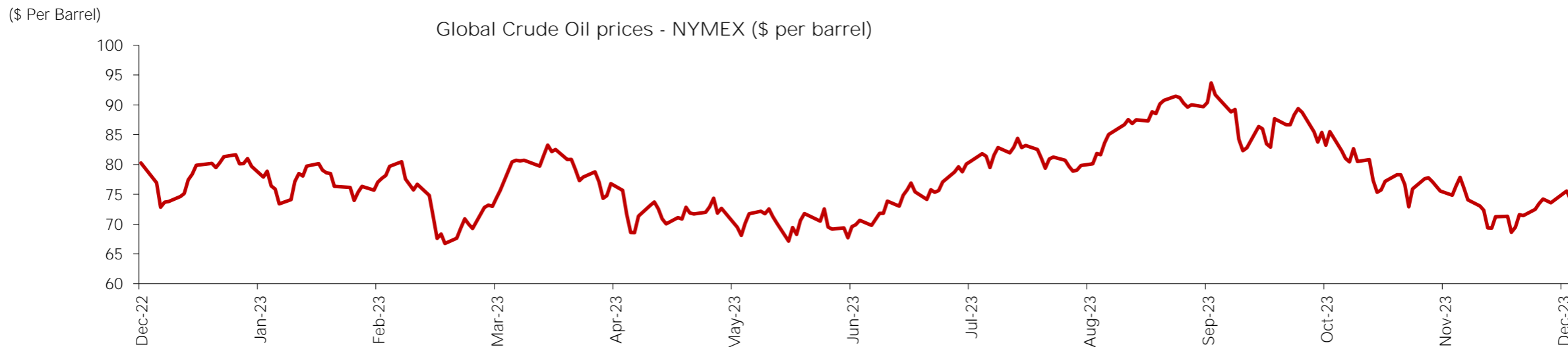


Global economic outlook likely to improve slightly next year

Commodity Market Review

International crude oil declined in December

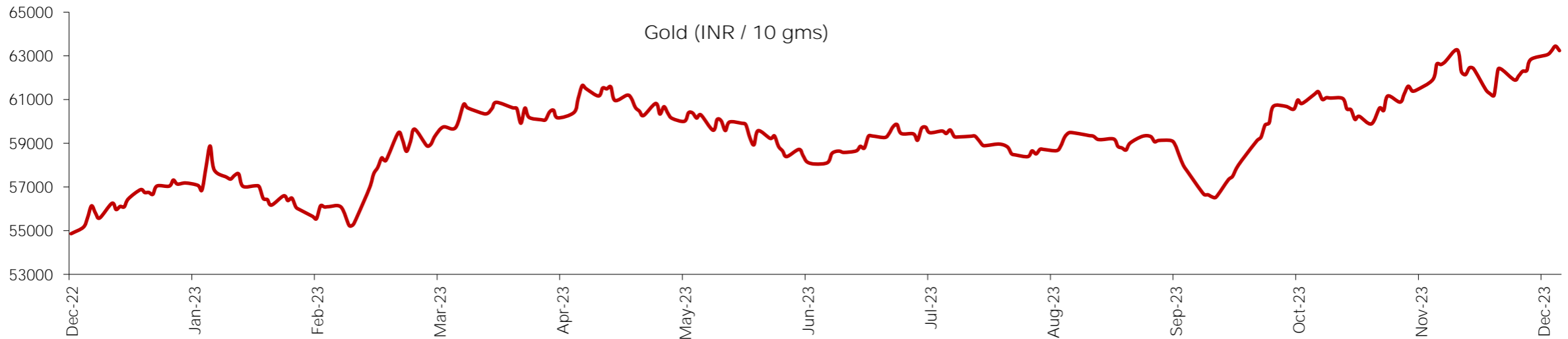
- Crude oil prices on the New York Mercantile Exchange (NYMEX) closed at \$71.65 per barrels on December 29, 2023, down around 5.67% from \$75.96 per barrel on November 30
- Oil prices began the month on a low note due to uncertainty over the depth and duration of supply cuts by the Organization of the Petroleum Exporting Countries (OPEC) plus group. Intermittent strength in the dollar index and persistent worries over global demand growth also kept oil prices under pressure. They declined further after US data revealed a larger-than-expected rise in gasoline inventories and Angola decided to exit OPEC
- However, the fall in oil prices was capped due to supply concerns over disruptions to maritime trade and supply costs increased after the Iran-aligned Yemeni Houthi militant group attacked ships in the Red Sea



Oil prices fell on persistent demand concerns

Gold rallied in December

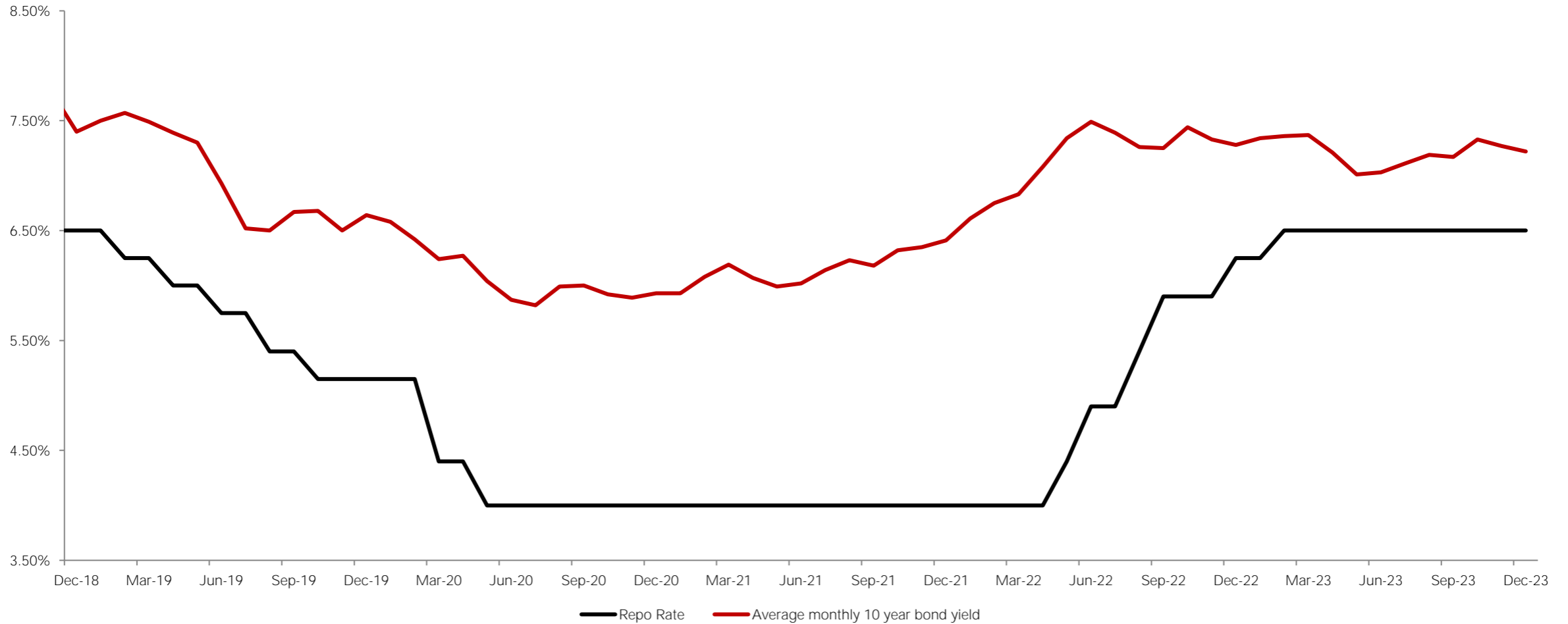
- Gold prices ended at Rs 63,246 per 10 gram on December 29, up 1% from Rs 62,607 per 10 gram on November 30, as per the India Bullion and Jewellers Association. For the calendar year, the metal gained 15.27%
- The yellow metal prices tracked soaring global bullion prices after dollar index and US treasury yield declined amid anticipation that the US Federal Reserve (Fed) would cut rates as early as March 2024
- These sentiments were strengthened after the Fed left its rates unchanged and signalled three rate cuts in 2024. The prices rose further after a few Fed officials also voiced similar sentiments
- Some weakness was witnessed during the month due to subdued domestic demand



Gold prices rose on expectations that the Fed may soon end its rate hiking stance

Source: CRISIL, IBJA. Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

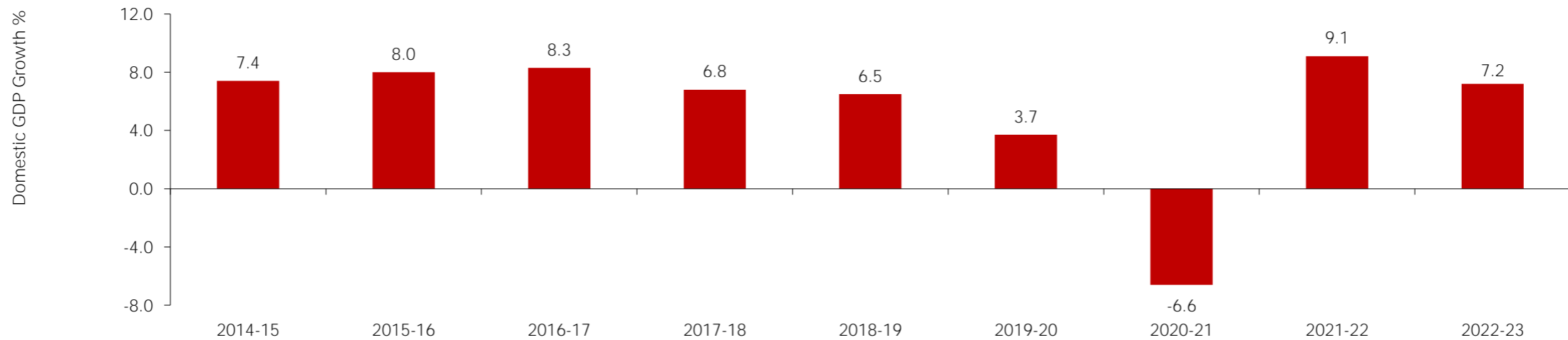
RBI Repo Rate held at 6.50%



Source: RBI, CRISIL Research, Data as on 29 December 2023
Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

India remains the fastest-growing major economy, outlook stays positive

- India continues to be the fastest-growing major economy in the world after achieving a better-than-expected 7.6% on-year gross domestic product (GDP) growth rate in the second quarter of fiscal 2024.
- Subsequently, the Reserve Bank of India (RBI) hiked its real GDP growth projection for the fiscal to 7% from its October forecast of 6.5%.
- In its half-yearly economic review report, the finance ministry highlighted India's domestic economic momentum and stability, low-to-moderate input cost pressures and anticipated policy continuity as significant buffers against global inflationary pressures and supply-chain disruptions due to geopolitical stress.



Source – CRISIL, Mospi, Data as on 29 December 2023

Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. GDP – Gross Domestic Product

India's retail inflation surges to three-month high

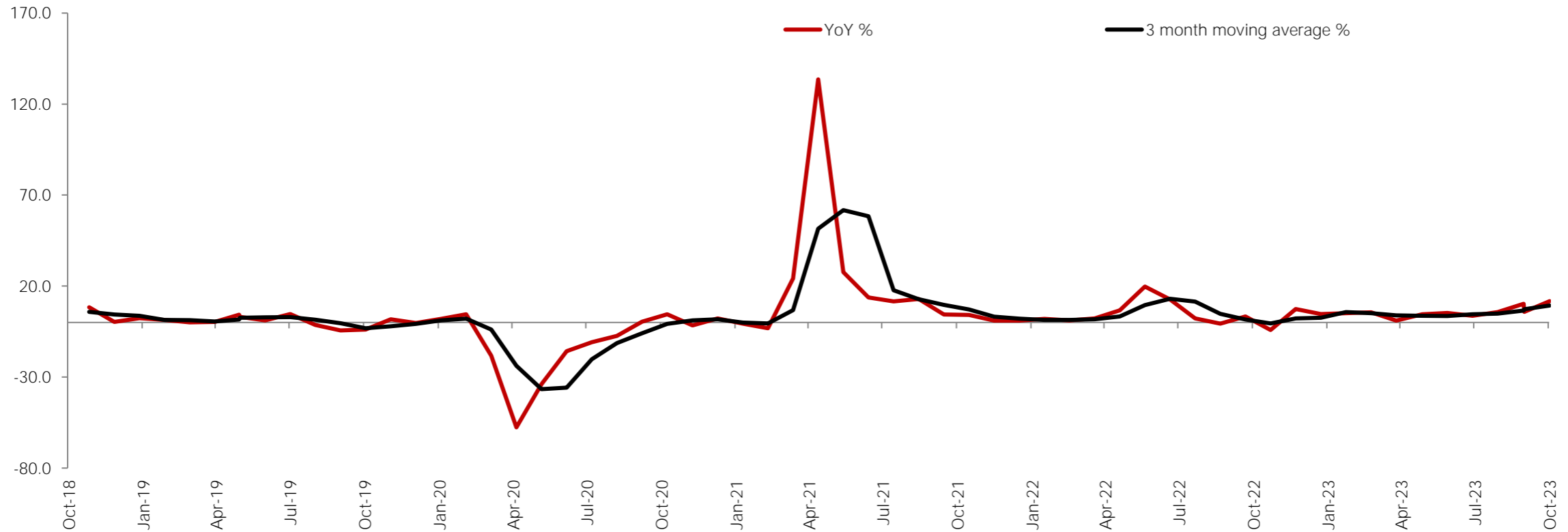
- After having eased to a four-month low of 4.87% in October, India's consumer price inflation surged to 5.5% in November..
- High food inflation also led to a return of India's wholesale inflation to positive territory after seven months. The country's wholesale price index (WPI)-based inflation came in at 0.26% in November, with the rate of inflation based on the WPI Food Index increasing from 1.07% in October to 4.69% in November.

Indicators	Current	Previous
Monthly CPI Inflation	5.5% (November 2023)	4.87% (October 2023)
Industrial Growth	11.7% (October-23)	5.8% (September-23)
Exports	\$278.80 bn (Apr-Nov FY24)	\$298.21 bn (Apr-Nov FY23)
Imports	\$445.15 bn (Apr-Nov FY24)	\$487.42 bn (Apr-Nov FY23)
Trade Balance	-\$61.44 bn (Apr-Nov FY24)	-\$100.38 bn (Apr-Nov FY23)
Gross Tax Collections	INR 164882 cr (Apr-Dec FY24)	INR 149507 cr (Apr-Dec FY23)

Source – Ministry of Commerce, Comptroller General of Accounts, CRISIL, Data as on 29 December 2023
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Index of Industrial Production - IIP

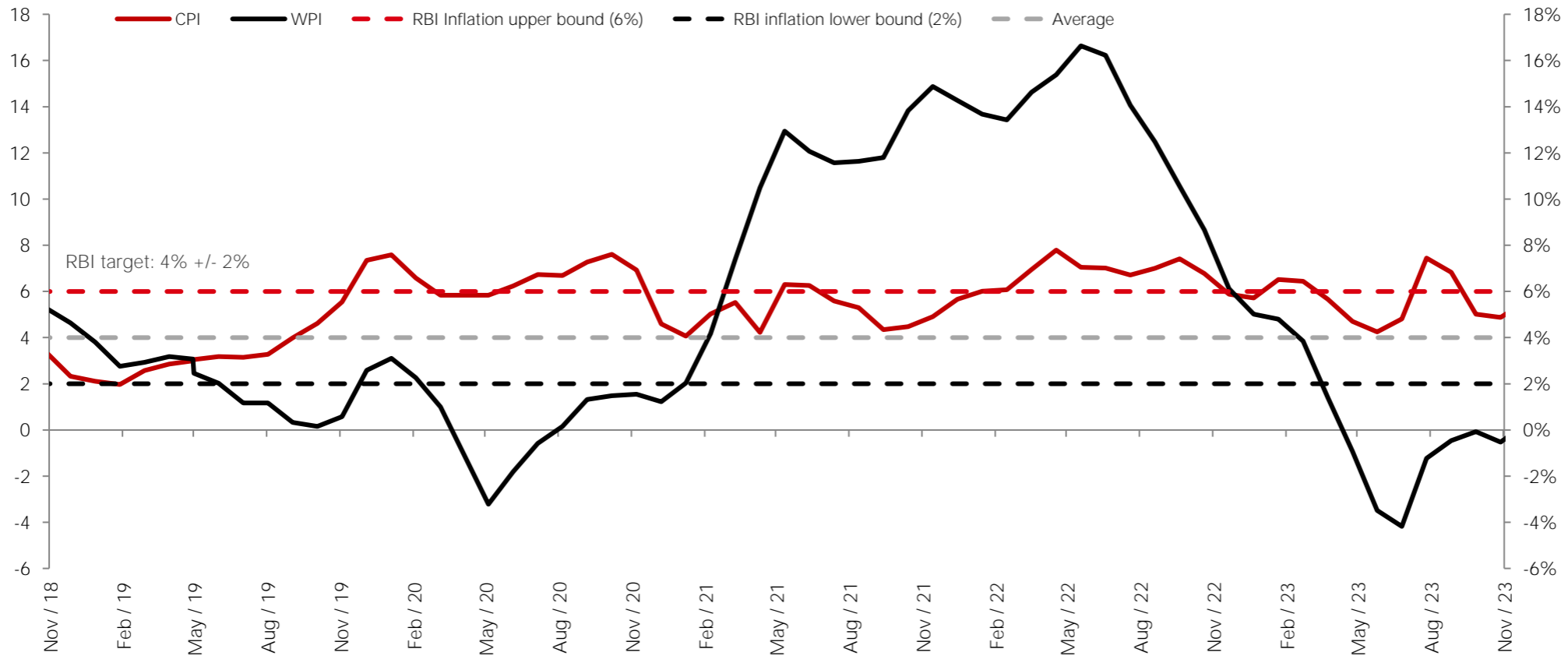
India's industrial production growth accelerated to 16-month high of 11.7% in October, mainly due to double-digit growth in manufacturing, power and mining sectors' output. September's IIP came at 5.8%



Source: CRISIL, MOSPI, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Inflation target and trend

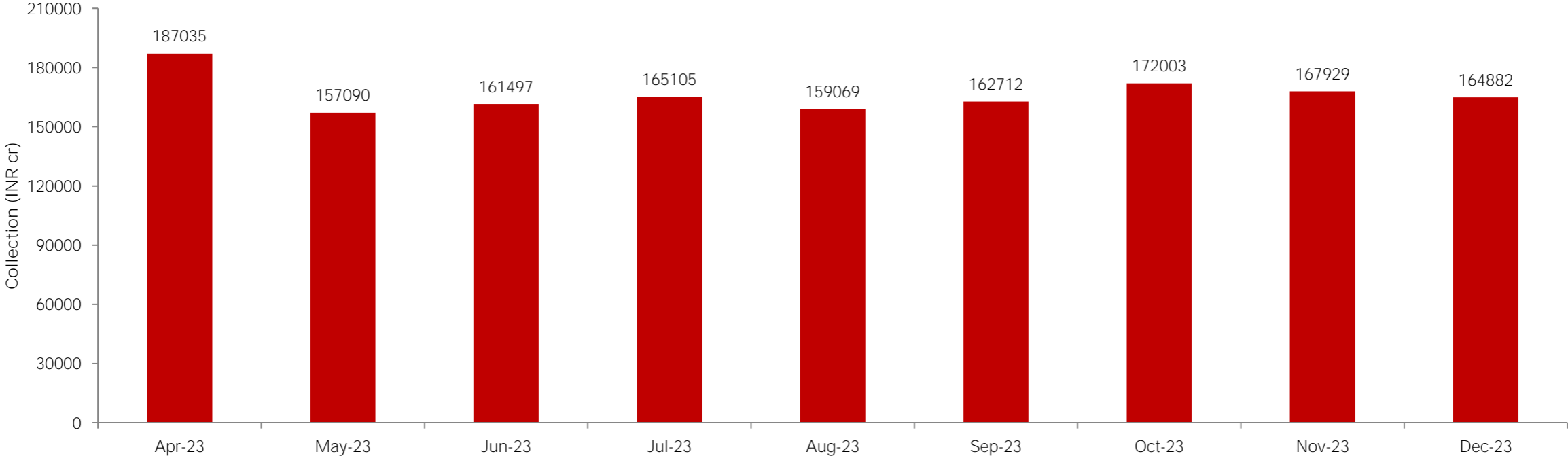
CPI inflation near the RBI's max target range



Source: CRISIL, MOSPI, RBI, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

GST collection rose to INR 1.64 lakh crore in December

The government collected INR 1.64 lakh crore goods and services tax (GST) for the month of December, registering growth of 10.3% from a year earlier.



Source: CRISIL, Ministry of Finance, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. GST – Goods and Services Tax

Indian equity indices rose in December '23

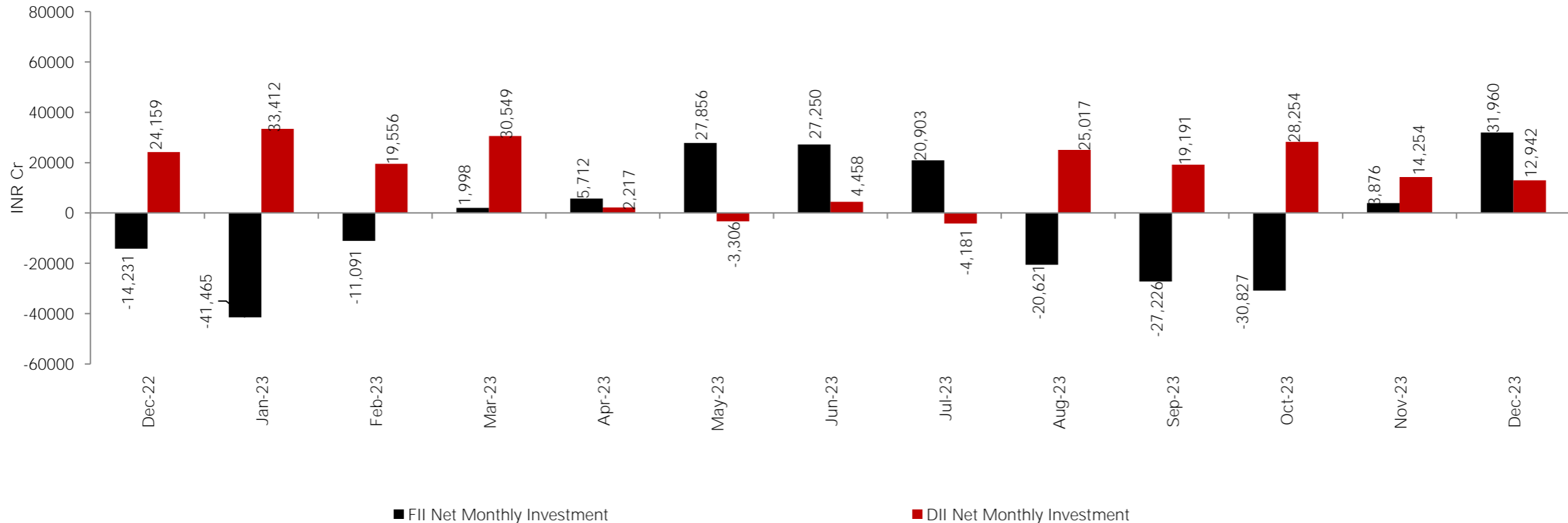
- Indian equities markets experienced their best returns in December. S&P BSE Sensex and Nifty 50 gained around 8% on-month, each in December. During the month, markets hit multiple record high, driven by bullish investor sentiments amid better-than-expected domestic growth, positive global cues and hopes of global interest rate reductions. For the calendar year 2023, S&P BSE Sensex and Nifty 50 soared 19% and 20%, respectively
- Improving macroeconomic indicators kept investors' confidence elevated. A faster-than-expected 7.6% GDP growth of the Indian economy in the September 2023 quarter is higher than the RBI estimates of 6.5%. Further, narrowing current account deficit (CAD) also supported sentiments.
- More gains were added after the RBI at its policy meet kept its key policy rates at 6.50% and raised its growth projections for 2023-2024 to 7% from its earlier estimate of 6.5%
- Further, results of state assembly polls Madhya Pradesh, Rajasthan and Chhattisgarh instilled a sense of political stability ahead of the Indian General Elections 2024. This, in turn, eased uncertainty over policy continuation, thus cheering investors
- One of the major driving factors of the markets were the expectations that global central banks will start reducing rates starting next year on the back of easing inflationary pressure. All the major central banks opted for status quo in their December policy meeting.
- Continued buying from foreign institutional investors (FII) and domestic institutional investors (DIIs) also added to positive sentiments. FII buying stood at Rs 58,498.27 crore compared to buying of Rs 19,177.86 crore in November. While DII bought Rs 12,942.25 crore compared to Rs 19,177.86 crore.
- Some gains were trimmed due to profit booking by investors after indices hit multiple record highs

Markets rose on strong data macroeconomic data and rate cut hopes

Source –CRISIL, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. GDP – Gross Domestic Product

All of **S&P BSE sectoral indices ended higher in Dec '23**

- All key S&P BSE sectoral indices not only gained value in the month, but also hit their respective 52-week highs.
- Among the sectoral indices, the S&P BSE Utilities (20%), S&P BSE Power (18%) and S&P BSE PSU (15%) were the top gainers.
- All three sectors benefited from bullish optimism, led by factors such as the government's thrust on capex, increase in power demand and an uptick in renewable energy investments.



Source: CRISIL, NSDL, NSE, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

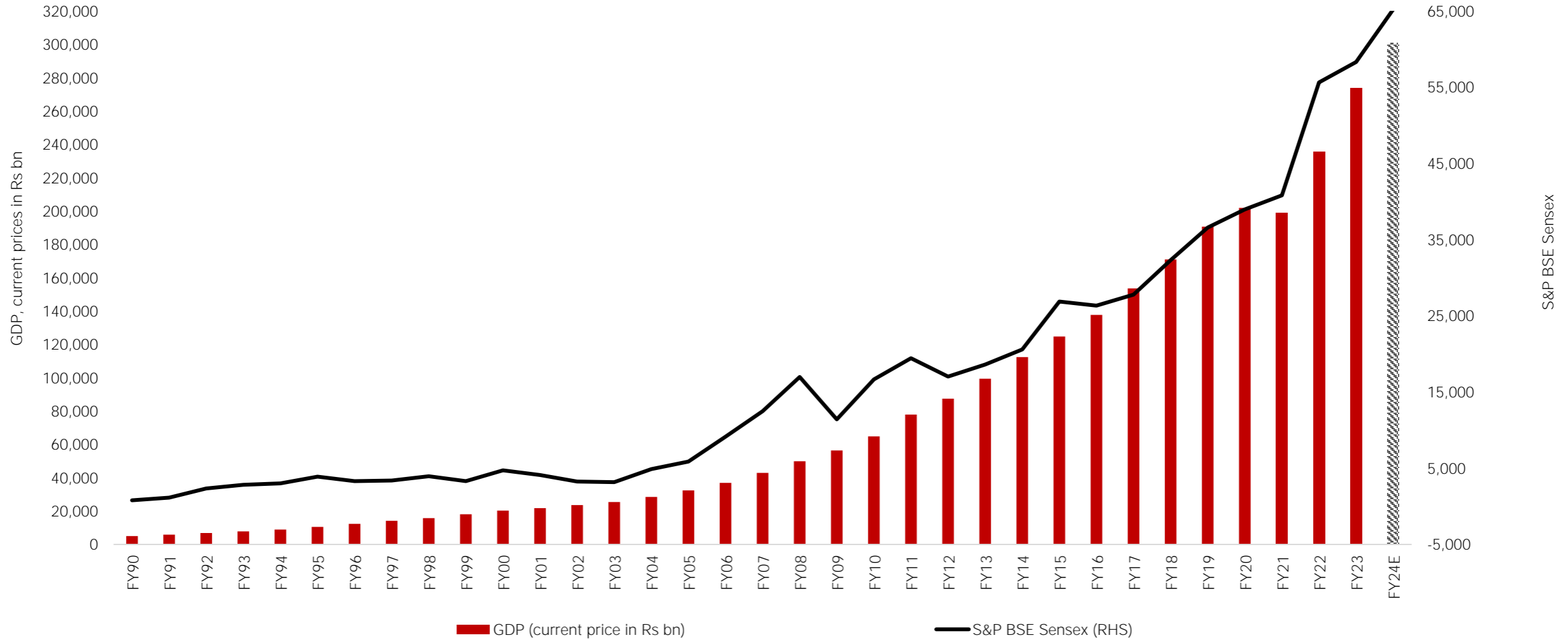
Equity Market Review

Indices	29-Dec-2023	30-Nov-2023	% Change 1 Month	% Change 1 Year	% Change YTD
Nifty 50	21731	20133	7.94	20.03	20.03
S&P BSE Sensex	72240	66988	7.84	18.74	18.74
S&P BSE Auto	42229	40053	5.43	46.00	46.00
S&P BSE BANKEX	54378	50293	8.12	11.19	11.19
S&P BSE Capital Goods	55644	49990	11.31	66.89	66.89
S&P BSE Consumer durables	50000	47120	6.11	25.87	25.87
S&P BSE FMCG	20468	19157	6.84	27.33	27.33
S&P BSE Healthcare	31549	30375	3.87	36.97	36.97
S&P BSE IT	36011	33227	8.38	25.60	25.60
S&P BSE Metal	26991	24240	11.35	29.42	29.42
S&P BSE MidCap	36839	34256	7.54	45.53	45.53
S&P BSE Oil & Gas	23021	20551	12.02	12.80	12.80
S&P BSE Power	5819	4921	18.24	32.81	32.81
S&P BSE PSU	15558	13489	15.34	55.30	55.30
S&P BSE Realty Index	6187	5657	9.37	79.50	79.50
S&P BSE SmallCap	42674	40372	5.70	47.52	47.52

Source: NSE, BSE, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Equity mirrors economic growth in the long term

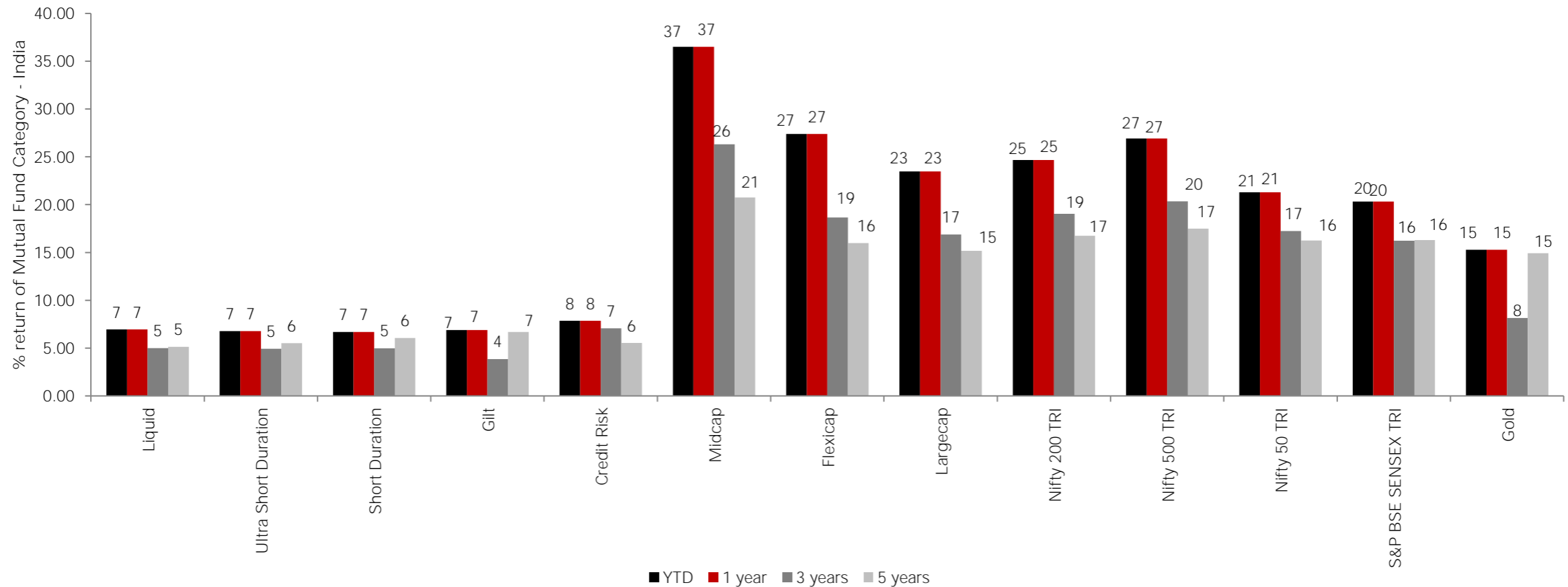
GDP - The Indian economy is expected to carry the momentum of last year's GDP growth into the current fiscal year as well



Source: CRISIL, Bloomberg, BSE, IMF, The GDP projection for fiscal year 2024 is shown shaded in this graph is for illustration purposes only and is not guaranteed, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice GDP – Gross Domestic Product.

Equities remain best asset class

Fund Category returns – Equity oriented funds posted strong performance in the long term



Source: Crisil, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

YTD, 1 year returns are absolute, 3 and 5 years annualised CAGR returns, Average performance of 22 Liquid, 18 Ultra Short Duration, 19 Short Duration, 16 Gilt, 11 Credit risk, 23 Mid cap, 23 Flexi cap and 27 Large cap funds of CRISIL ranked schemes from the respective fund categories, Gold returns are based on spot rates from India Bullion and Jewellers Association (IBJA)

Sectoral performance long term trends

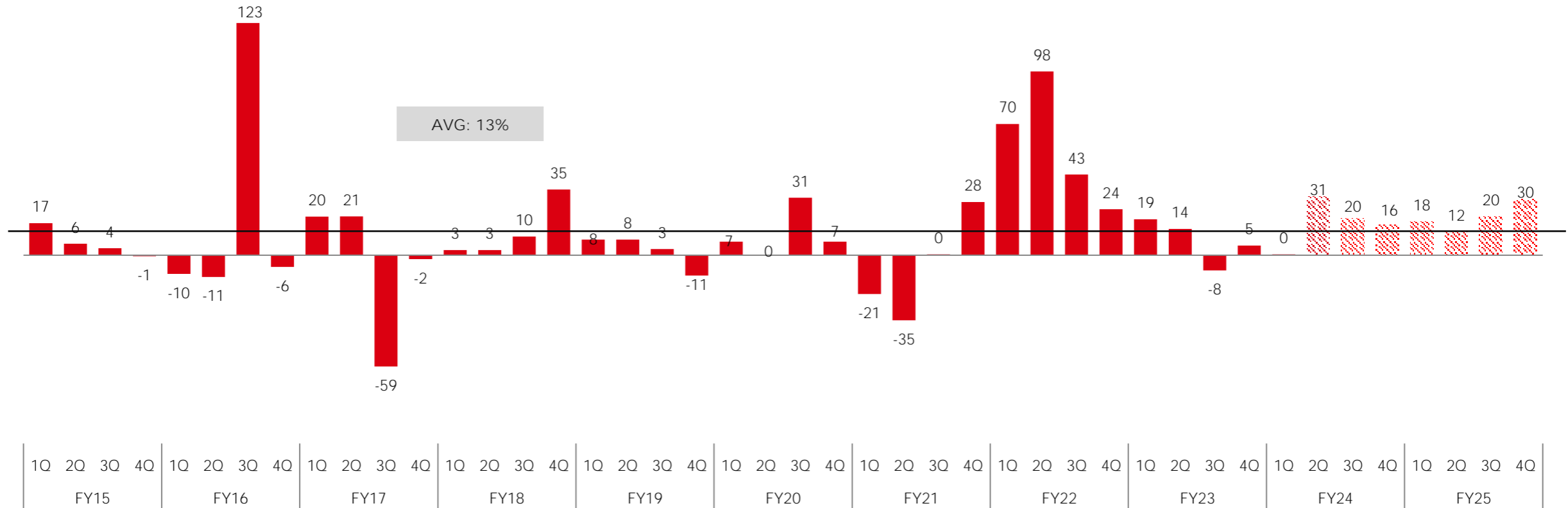
Sectoral returns – Sectoral indices post positive performance over the 10-year period

Sectoral indices	% Change										
	CY14	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23*	10-year CAGR*
Nifty 50	31.39	-4.06	3.01	28.65	3.15	12.02	14.90	24.12	4.33	11.20	12.53
S&P BSE Sensex	29.89	-5.03	1.95	27.91	5.91	14.38	15.75	21.99	4.44	10.10	12.40
S&P BSE Auto	51.98	-0.60	9.39	32.06	-22.12	-11.27	12.59	15.27	16.54	38.48	12.50
S&P BSE BANKEX	65.04	-9.92	7.35	39.08	5.27	20.72	-2.14	13.63	21.03	2.83	14.71
S&P BSE CG	50.45	-8.51	-3.28	40.03	-1.63	-9.97	10.63	43.47	15.97	49.93	17.66
S&P BSE CD	66.18	24.02	-6.34	101.92	-8.79	20.86	21.52	41.81	-11.27	18.62	23.40
S&P BSE FMCG	18.27	1.36	3.29	31.54	10.60	-3.58	10.55	8.57	-10.93	19.17	11.30
S&P BSE Healthcare	47.43	15.06	-12.88	0.49	-5.92	-3.55	61.45	17.62	16.62	31.87	12.31
S&P BSE IT	16.54	4.51	-8.00	10.83	24.93	9.84	56.68	41.79	-12.10	15.89	14.71
S&P BSE Metal	7.91	-31.20	36.65	47.78	-20.75	-11.92	11.23	57.06	-24.24	16.23	9.91
S&P BSE Oil & Gas	12.01	-3.43	27.17	34.00	-15.57	7.25	-4.44	24.22	8.36	0.70	9.03
S&P BSE Power	23.03	-6.44	1.53	19.83	-16.06	-3.65	7.05	67.62	16.57	12.32	11.66
S&P BSE PSU	39.21	-17.18	12.88	19.27	-21.11	-3.88	-16.88	41.01	25.84	34.65	8.78
S&P BSE Realty	8.49	-13.55	-5.98	106.36	-31.07	26.85	8.66	53.34	-10.26	64.11	15.34

Source: CRISIL, BSE, Figures in red indicate negative returns in that period. *10-year CAGR, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Earnings growth – quarterly trend

Nifty 50 earnings retreated Q2 FY22 onwards



Nifty 50 EPS Growth (Y-o-Y)

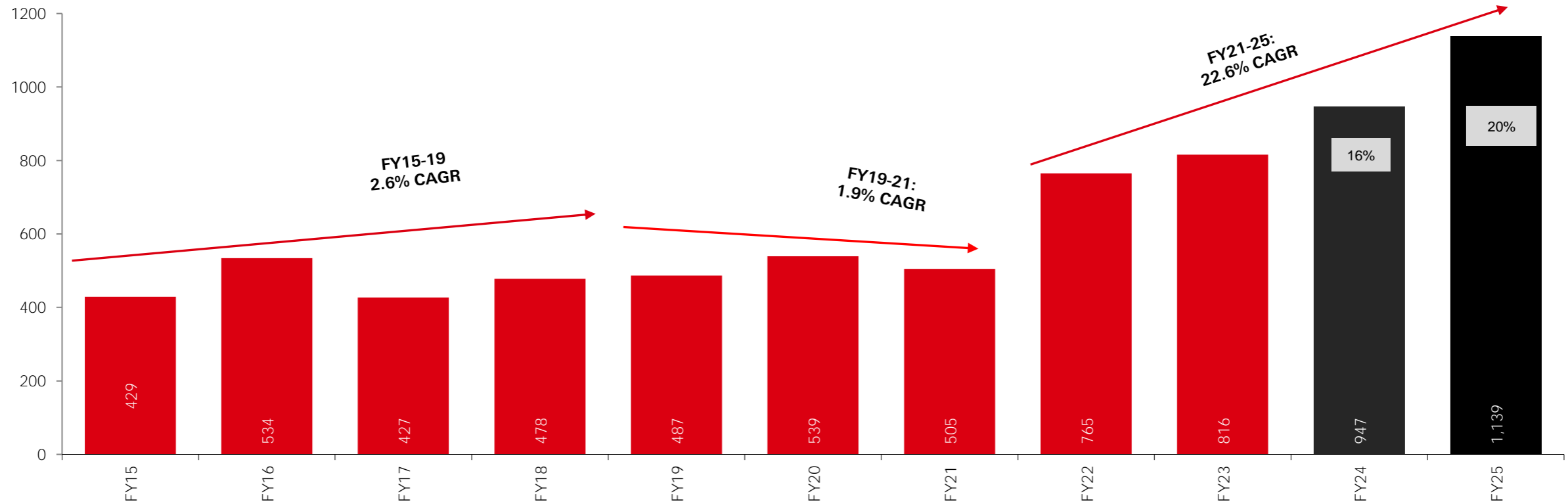
Estimates – shaded portion of FY25

^Average figure mentioned is from FY15 to FY25

Source: CRISIL, Bloomberg, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Earnings trend

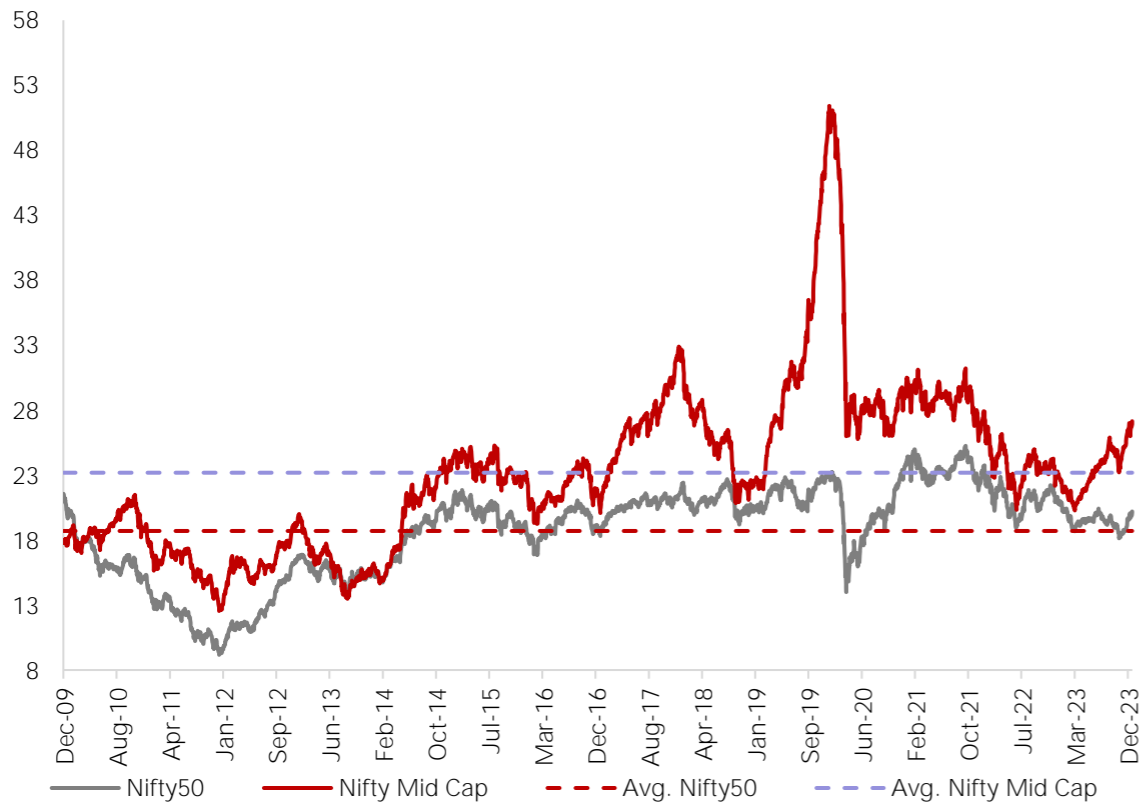
India - Equity earnings (Nifty 50 EPS)



Note: Trailing 12M EPS (Earnings Per Share)
Black shaded columns are estimates of FY24 and FY25
Source: CRISIL, Bloomberg, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Market valuations – Nifty 50 and Nifty Midcap 100

Large and Mid Cap - Price to Earnings (PE)



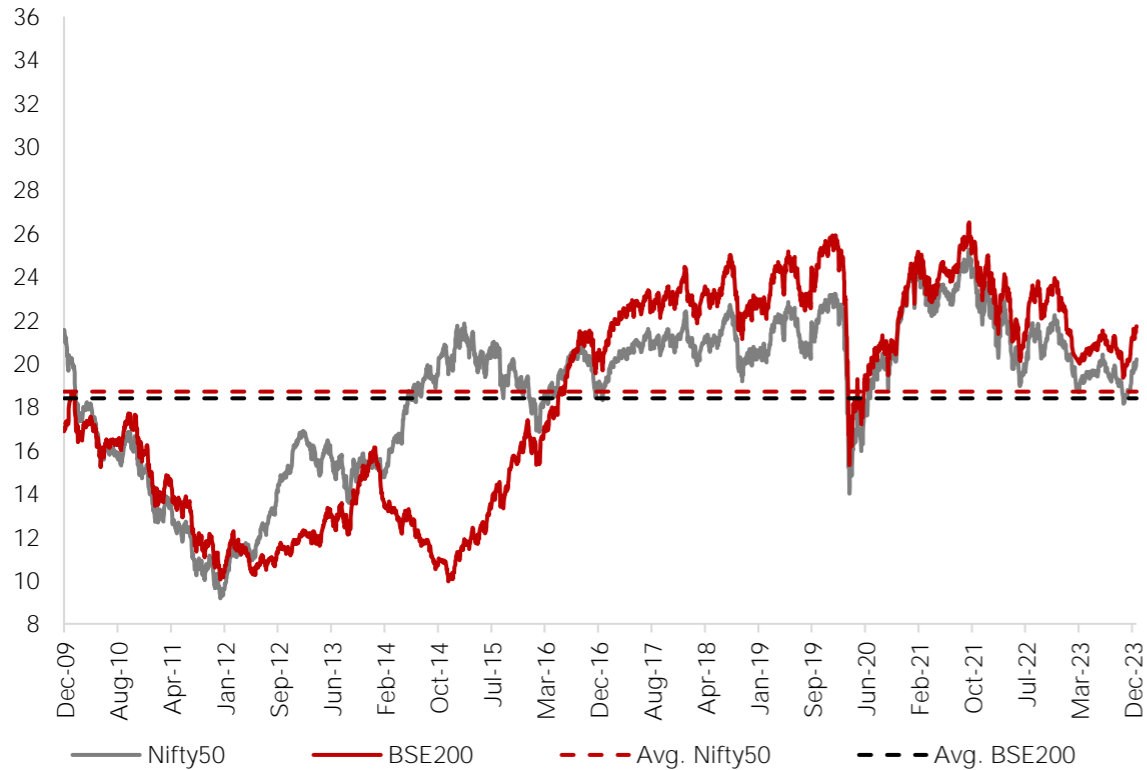
Large and Mid Cap - Price to Book (PB)



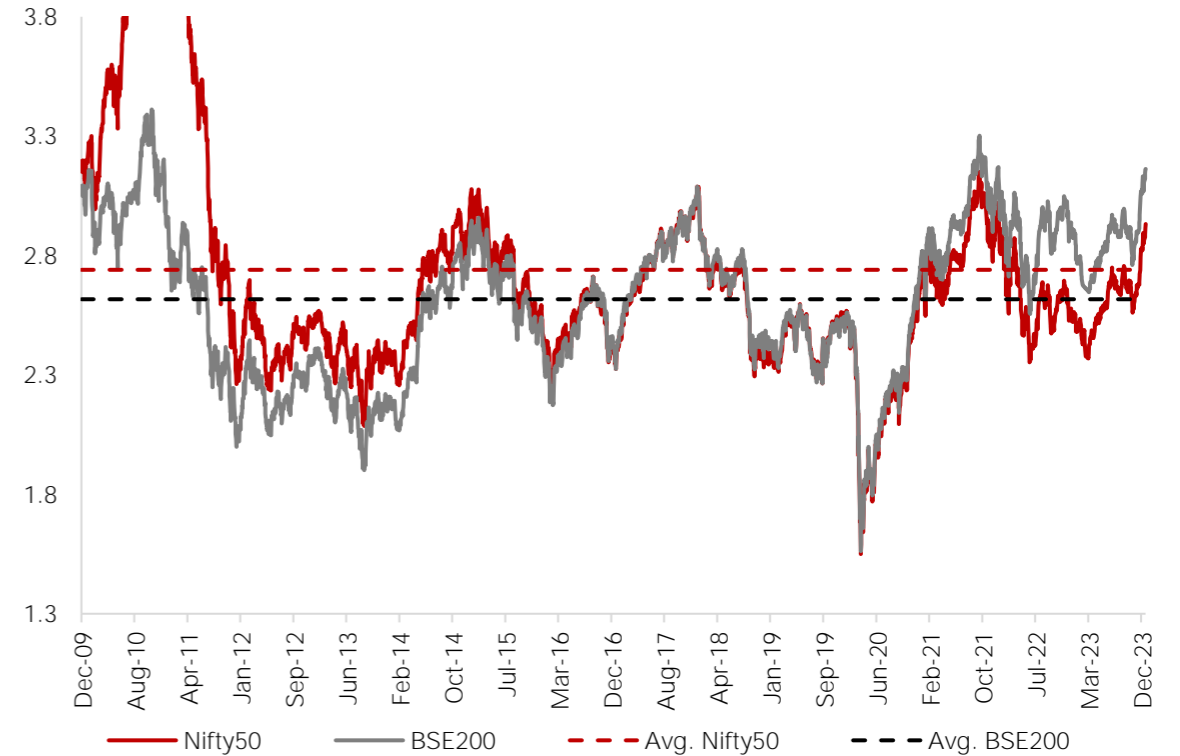
Source: CRISIL, Bloomberg
Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Market valuations – Nifty 50 and S&P BSE 200

Large and S&P BSE 200 - Price to Earnings (PE)



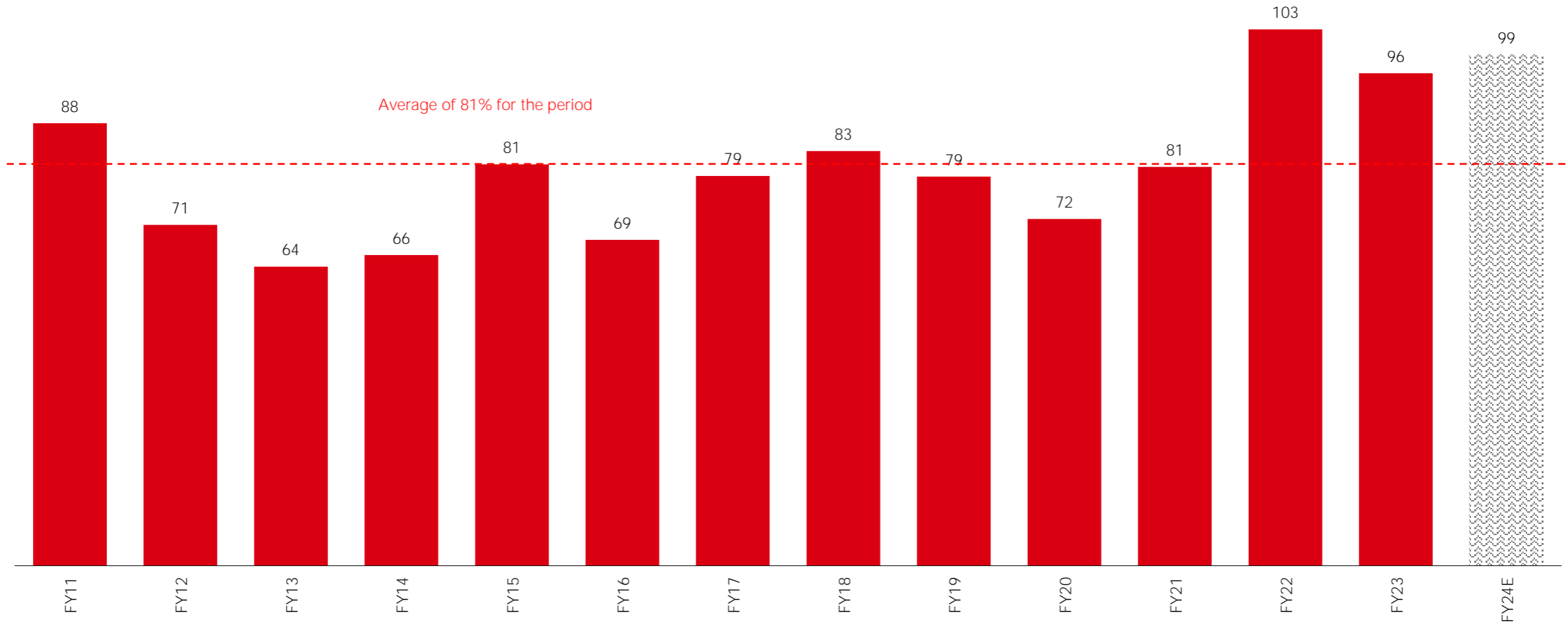
Large and S&P BSE 200 - Price to Book (PB)



Source: CRISIL, Bloomberg, BSE, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

India Market cap to GDP (%)

Market cap as a % of GDP



Shaded area are Estimates (E) – FY24
Source: CRISIL, MOSPI, Bloomberg, CRISIL estimates;

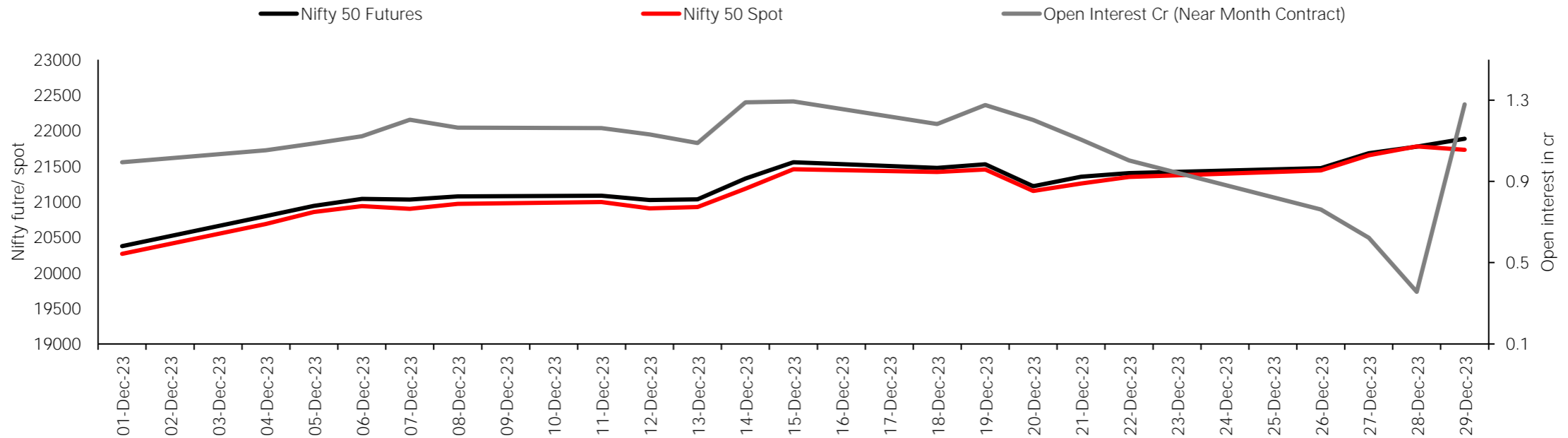
Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. GDP- Gross Domestic Product

- The sharp correction in US bond yields during December continued to lift global equity markets.
- Indian equity indices ended the year with a bang aided by the strong global risk-on rally and heavy FII buying.
- FIIs turned big buyers in Indian equities in December with an inflow of US\$7 bn in December. DIIs also invested US\$1.6 bn during the month driven by domestic mutual funds.
- Nifty FY24/25 consensus earnings have seen a 1%/1% upgrade over the last 1 month. Following the strong up move, Nifty now trades on 21x 1-year forward PE more than 15% above its 10-year average and 8% above its 5-year average.
- Valuations in Mid Cap and Small Cap space are much more elevated which are trading more than 33% above their 10-year mean valuation.
- The macro environment remains challenging with heightened global geo-political and economic uncertainties. However, with inflation now under control, the US Fed has indicated the potential for interest rate cuts going forward which have buoyed the global markets
- For India, growth has continued to remain strong with GDP growth of 7.6% in Q2FY24 following 7.8% in Q1FY24 driven by strong government spending and pickup in investments, manufacturing and construction.
- India starts 2024 on a strong footing with positive growth momentum. India's manufacturing sector on a strong medium term growth trajectory as the underlying drivers continue to strengthen.
- Rising power demand, buoyant capital markets and need to reduce carbon footprint is likely to drive growth in private investments into renewable energy. Localization thrust and global supply chain re-adjustments are driving capacity addition in manufacturing across verticals. Real Estate remains another strong medium term growth driver having weathered the impact of higher interest rates. Pickup in investment cycle to help support credit growth in 2024.
- Expect improvement in consumption as the impact of high inflation fades and real incomes start to grow again. However, in our view several of these positives are getting discounted by the high valuations currently prevailing in the equity market. Constructive on Indian equities supported by the more robust medium term growth outlook but remain cautious on high return expectations.

Source: HSBC Asset Management, India, Data as on 31 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Nifty futures

- The Nifty 50 near-month future contract of December rose on the rollover day (December 28) versus spot.
- The new near-month contract (January 25) ended ~164 points higher on December 28.
- The rollover of the new near-month contract (December) was 74% on the expiry day compared to 68% in the previous expiry.
- Volatility of the Nifty 50 index, as measured by India VIX moved in a narrow range during the month, rising to 15.14 on December 28 (rollover date) from 12.69 on November 30, and ended the month at 14.50.
- Nifty futures saw trading volume of around Rs 3.73 lakh crore, arising out of 35.01 lakh contracts, with an open interest of around 28.48 crore during the month



Source – NSE, CRISIL, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Nifty options

- On December 29, Nifty 22,000 call option witnessed the highest open interest of around 112 lakh, while Nifty 20,150 call contract garnered the maximum number of contracts of 22.90 lakh.
- Nifty 21,000 put option witnessed the highest open interest of 122 lakh on December 29 and the Nifty 21,700 put contract garnered the maximum number of contracts of 32.42 lakh.

NSE F&O turnover

- Turnover on the NSE's derivative segment rose 16% in the month led by gains in index options and stock futures and stocks. The average put-call ratio was 0.90 in December lower than 0.91 in November.

Instrument	Monthly turnover summary (Figures in INR crore)		
	29-Dec	30-Nov	Change %
Index futures	664,523.87	477,592.68	39%
Stock futures	2,524,106.95	1,927,121.34	31%
Index options	744,429,909.93	645,234,054.49	15%
Stock options	10,175,954.14	6,967,743.43	46%
Total	757,794,494.89	654,606,511.94	16%

Source – CRISIL, NSE. Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Futures & Options (F&O) Review

FII segment

On December 29, FIIs' open interest was Rs 5.27 lakh crore (~62 lakh contracts). The details of FII derivatives trades for December 1 to 29 are as follows:

	BUY		SELL		BUY %		SELL %	
	No. of contracts	Amount in INR Cr	No. of contracts	Amount in INR Cr	No. of contracts	Amount in INR Cr	No. of contracts	Amount in INR Cr
Index Futures	1188888	104240	1063576	94160	0.20	0.22	0.18	0.19
Index Options	564241054	46874432	570703336	47378878	97.27	97.37	97.37	97.46
Stock Futures	6926907	542846	6601876	518682	1.19	1.13	1.13	1.07
Stock Options	7712968	619724	7731882	621525	1.33	1.29	1.32	1.28
Total	580069817	48141242	586100670	48613245	100.00	100.00	100.00	100.00

Source – CRISIL, NSDL. Data as on 29 December 2023 , Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Average inter-bank call money rates were slightly above RBI repo rate in December

- Interbank call money rates remained well above the RBI's repo rate of 6.50% for major part of December, before closing 6.05% on December 29 (an average of 6.51% in the month).
- Overnight rates consistently stayed above the upper end of the RBI's policy corridor through the month, owing to a widening banking system liquidity deficit.

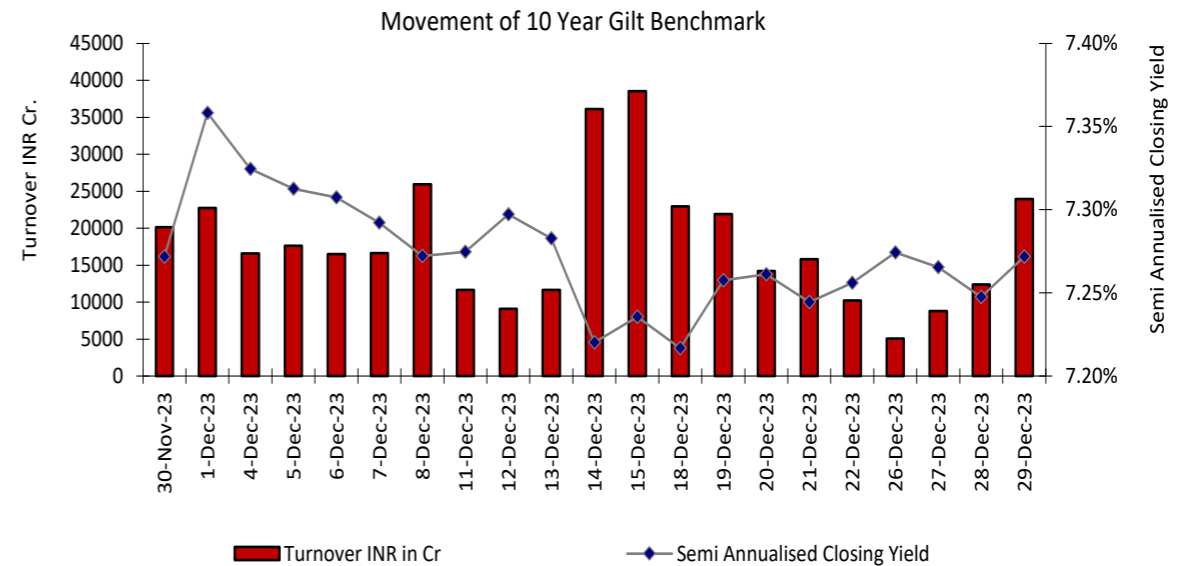
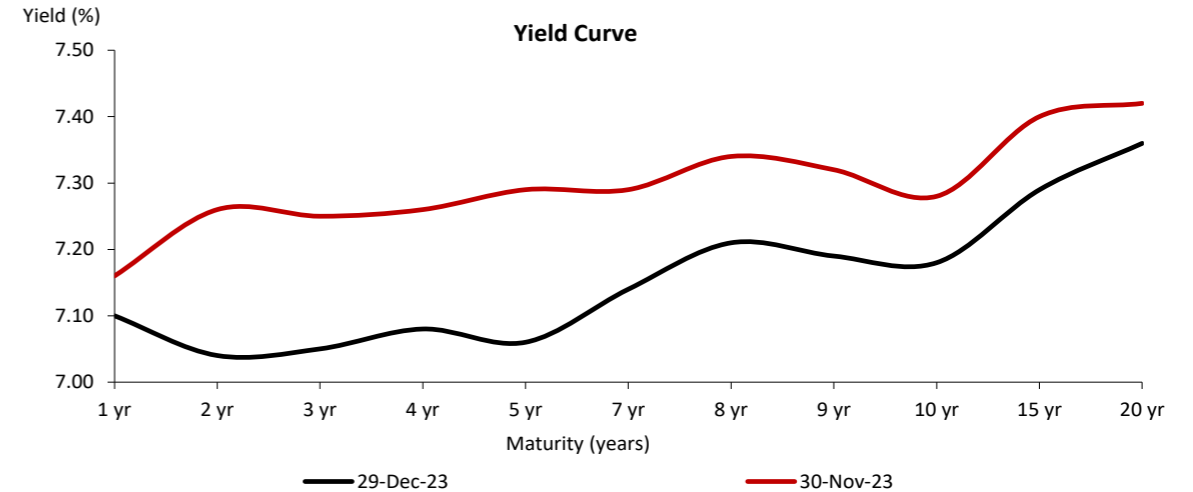
Bond prices ended higher in December

- In December, bond yield ended marginally lower, with the yield on the new 10-year benchmark 7.18% 2033 bond ending 7.18% on December 29, as compared with 7.28% on November 30, 2023
- The bond made some early gains due to a sharp fall in US Treasury yields amid expectations of the US Fed cutting interest rates in the first half of fiscal 2024
- These expectations grew stronger as the month progressed, eventually peaking, following the Federal Reserve meeting on December 12 and 13, where officials kept interest rates unchanged and made dovish comments
- The US Fed officials also signalled three quarter-point rate cuts for fiscal 2024, which could begin as early as March 2024
- Weakness in global crude oil prices also supported the rally in bond prices
- Further gains in bond prices were, however, cut short with the RBI keeping its key interest rates unchanged and retaining its withdrawal of accommodation stance as a measure to ensure that inflation progressively aligns with its target, while also supporting growth
- Some gains in yield were also seen following intermittent indications of higher supply at debt auction results of the RBI, profit booking witnessed ahead of the quarter-end and the calendar year-end and a cautious approach by investors towards the end of the month in the absence of fresh cues

Source: CRISIL. Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. US- United States RBI- Reserve Bank of India

Debt Market Review

Debt Market Indicators	29-December-23	30-November-23
Call Rate	6.25%	6.65%
3-mth CP rate	7.88%	7.85%
5 yr Corp Bond	7.67%	7.71%
10 Yr Gilt	7.18%	7.28%
Repo	6.50%	6.50%
SDF	6.25%	6.25%
CRR	4.50%	4.50%
1-mth CDs	7.33%	07.10%
3-mth CDs	7.30%	07.31%
6-mth CDs	7.62%	07.58%



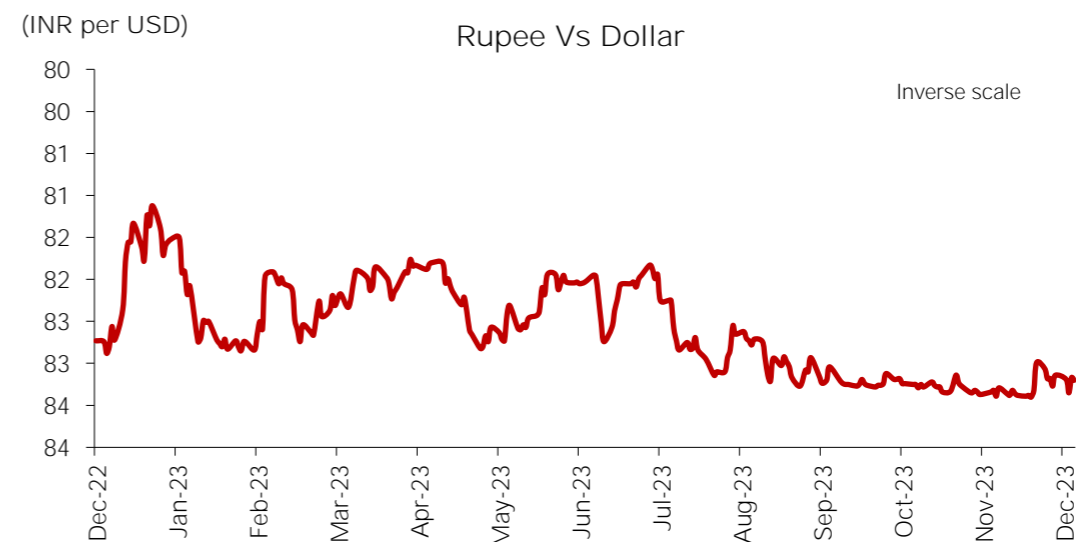
Source: CRISIL Fixed Income database
 Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice

- In the US, bond yields peaked in October with the 10-year US Treasury hitting 5%, before rallying sharply all the way down to 3.80% in the last week of December.
- Fed fund futures are now pricing in almost 5-6 rate cuts in CY2024, with a high probability of the first one being delivered as early as March.
- While the volatility in global bond yields may continue and market expectations of the timing and quantum of rate cuts may keep shifting, 2024 is clearly likely to witness an easing cycle across most developed and emerging economies.
- While we do expect India to also join the easing cycle at some stage, the situation is quite different here with growth holding up much better than other countries.
- With RBI increasing its FY24 GDP projection to 7% (from 6.5% earlier), and the outlook for FY25 also appearing to be positive, the need for RBI to support the economy through any dramatic monetary easing measures is much less.
- The RBI MPC is likely to take a measured approach to see how the easing cycle progresses in the developed world and its impact, while keeping a keen eye on domestic growth prospects.
- Accordingly, we believe our easing cycle is likely to start later- in the second half of the calendar year. It is also likely to be a shallow rate cutting cycle for us, with possibly two rate cuts taking the policy rate to 6% by March 2025.
- Prior to the first rate cut, however, RBI is likely to gradually shift the liquidity deficit into a surplus, consistent with an easing cycle. Hence, despite a potential rate cut of only 50 bps, the overnight rates are likely to move down by 75-100 bps on account of the reversal of liquidity conditions, and overnight rates flipping from the top to the bottom of the rate corridor.
- As and when RBI does start its easing cycle, the yield curve is likely to steepen with shorter maturity rates coming down more than the longer end.
- We may observe that there may be a relatively favorable case to add duration to investor portfolios with a 1.5 - 2 year investment horizon for reasons mentioned below.

Indian rupee advanced in December

- The Indian rupee ended December 2023 at Rs 83.20 per US dollar, which translates into a 0.2% gain as compared to November-end. On a calendar year basis, while this was the sixth straight year of a fall in the domestic currency.
- The local currency made some early gains on the release of strong macroeconomic data, including better-than-expected GDP growth during Q2FY24.
- Thereafter, a strong upward trend in the domestic equity markets, featuring the breaching of several all-time highs in both benchmark indices, also supported the Indian rupee through the course of the month. Intermittent falls in the dollar index amid dovish comments and strong indications of rate cuts by the US Fed also benefitted the rupee.

Rupee Movement V/s Global Currencies				
	29-Dec-23	30-Nov-23	Change	% Change
USD	83.20	83.39	0.19	0.23
GBP	105.73	105.64	-0.09	-0.09
EURO	91.94	91.17	-0.77	-0.84
100 YEN	58.73	56.64	-2.09	-3.69

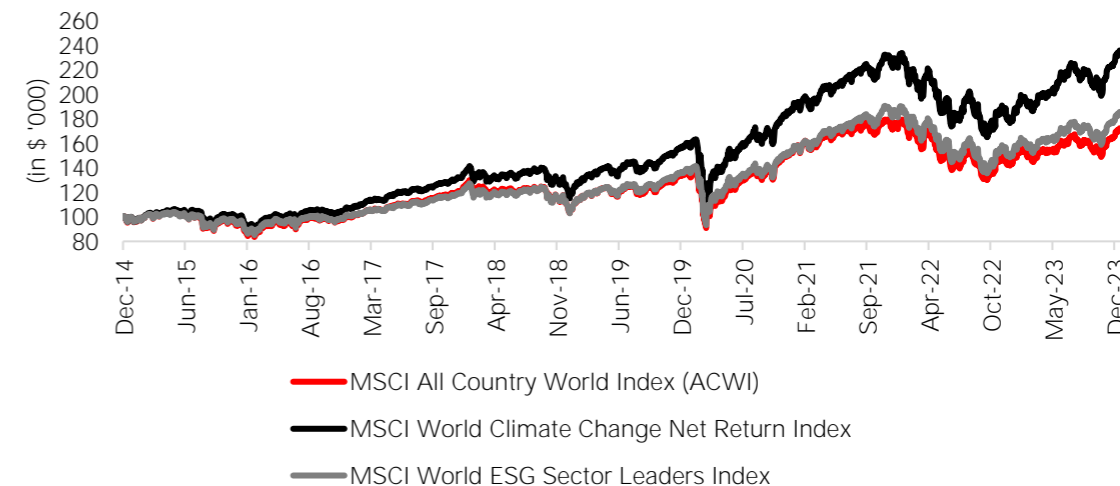
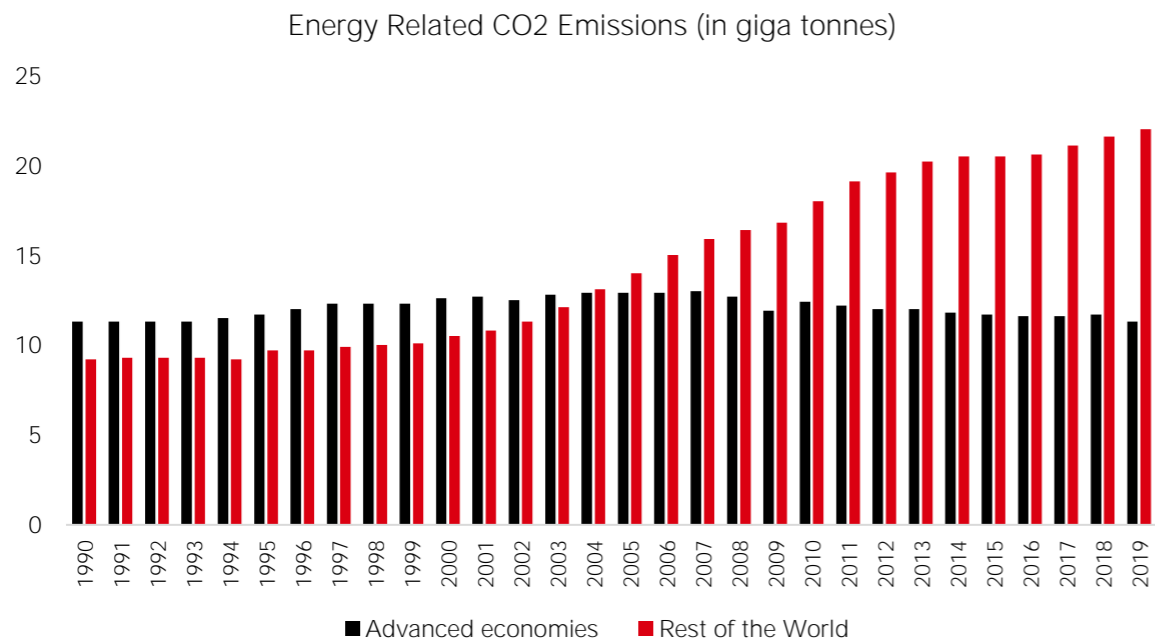


Strong domestic equities and weak dollar index supported the rupee

Source: RBI, CRISIL. Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice. US- United States

Climate Change and ESG

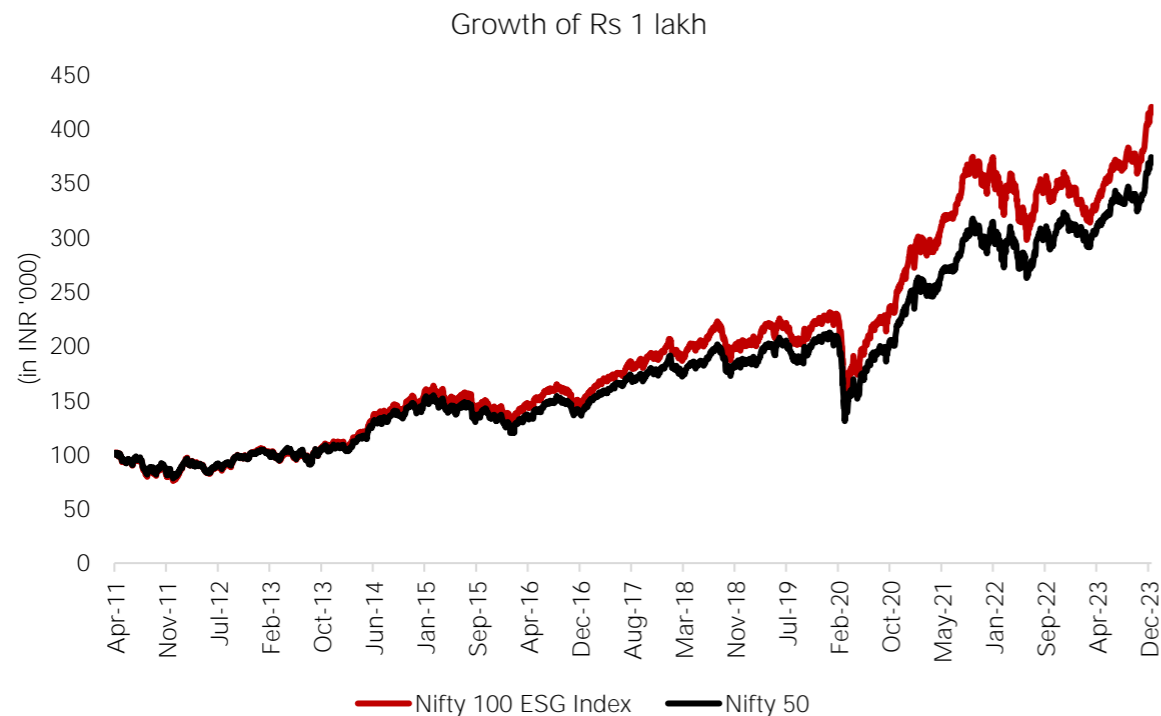
- The issue of climate change (generally measured in terms of carbon dioxide or CO2 emissions) has been in the limelight amid the rising number of climate disasters such as wildfires, floods, droughts, diseases, etc in recent times.
- This has resulted in shifting of focus towards businesses which are sensitive towards tackling these issues or in other words take into consideration the environmental, social and governance (ESG) factors while conducting their business.
- If we consider climate change and ESG themes in terms of performance vis-à-vis general equity for illustrative purposes, a sum of \$100000 invested in MSCI World Climate Change index and MSCI World ESG Sector Leaders index in December 2014 would have grown to \$234828 and \$171933, respectively as on December 29, 2023, as against growth of \$185191 in MSCI All Country World Index (ACWI) during the same period.



Source: CRISIL, Bloomberg, International Energy Agency (IEA)

Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

- In the Indian context, the ESG theme has shown encouraging performance.
- In terms of returns, ESG (represented by Nifty 100 ESG) has outperformed general equity (represented by Nifty 50) across some time periods.
- If long-term growth in ESG scheme is analyzed, if an investor put in INR 100,000 in Nifty 100 ESG and Nifty 50 in April 2011, it would have grown to INR 420,000 and INR 373,000, respectively, for the period ended December 29, 2023.



Period	Performance (%)	
	Nifty 100 ESG	Nifty 50
1 year	21.79	19.46
2 years	8.79	12.36
3 years	15.36	15.97
5 years	15.60	14.86
7 years	16.13	15.13

Source: NSE, Bloomberg. Returns above 1 year are compounded annualized. Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Global Economic Update

US economy grows 4.9% in the third quarter of 2023; Fed holds rates, hint three rate cuts in 2024

- The US economy expanded an annualized 4.9% in the third quarter of 2023, compared with 2.1% in the second quarter.
- Meanwhile, the US Federal Reserve, at its last policy meet of the year, kept the fed funds rate steady at 5.25%-5.5% for a third consecutive meeting and hinted 75 basis points rate cut in 2024.

Key economic indicators

- The annual inflation slowed to 3.1% in November, the lowest reading in five months, from 3.2% in October, while the core inflation rate was unchanged at 4%.
- Nonfarm payroll added 199,000 jobs in November, surpassing the 150,000 added in October, while unemployment rate fell to 3.7% from 3.9%.

US economy grew 4.9% in Q3

Eurozone grows 0.1% in the third quarter of 2023; ECB kept rates unchanged

- Economy stalled in the third quarter of 2023, compared with an earlier estimate of 0.1% and upwardly revised 0.6% growth in the previous quarter.
- The European Central Bank (ECB) left its primary refinancing operations rate unchanged at 4.50% in December 2023.

Key Eurozone economic indicators

- The annual inflation rate decreased to 2.4% in November, lower from 2.9% in October while core inflation rate fell to 3.6% from 4.2%.
- Industrial production declined by 6.6% over year in October, compared to 6.8% fall in September.

UK grew 0.3% in the third quarter; BoE holds rates

- The UK economy expanded 0.3% on year in the third quarter of 2023, half the initial estimate of 0.6%, and same a Q2 growth which was also revised down to 0.3%. On Monthly basis, the country's GDP expanded 0.3% on year in October, compared with 1.3% growth in September.
- Meanwhile, the Bank of England's Monetary Policy Committee voted 6-3 to keep its key policy rate at 5.25% for the third consecutive meeting.

Key UK economic indicators

- Annual inflation slowed to 3.9% on year in November, from 4.6% in October while core inflation declined to 5.1% from 5.7%.
- Industrial production rose 0.4% on year in October, easing from a 1.5% advance in September while manufacturing production slowed 0.8% from a 3% rise.

Eurozone economy grew 0.1% in Q3

PBoC held rates and infuses liquidity

- The People's Bank of China (PBoC) maintained its lending rates steady at the December fixing. The one-year loan prime rate (LPR) was held unchanged at a record low of 3.45% for the fourth consecutive month; and the five-year rate was left at 4.2% for the sixth straight month.
- Earlier the central bank launched a total of CNY 1.45 trillion via a one-year medium-term lending facility (MLF) to the banking system and left the interest rate unchanged at 2.50%.

Key Chinese economic indicators

- The country's trade surplus in November increased to \$68.39 bn from \$56.53 bn surplus in October.
- Industrial Production rose by 6.6% in November, compared to a 4.6% gain in October

Japan growth contracts 2.9% in the third quarter; BoJ held rates

- The Japanese economy contracted 2.9% on an annualised basis during the third quarter of 2023, after a downwardly revised 3.6% growth in the second quarter.
- Meanwhile, the Bank of Japan (BoJ) maintained its key short-term interest rate at -0.1% and that of 10-year bond yields at around 0% in its December meeting and left the forward guidance on monetary policy unchanged.

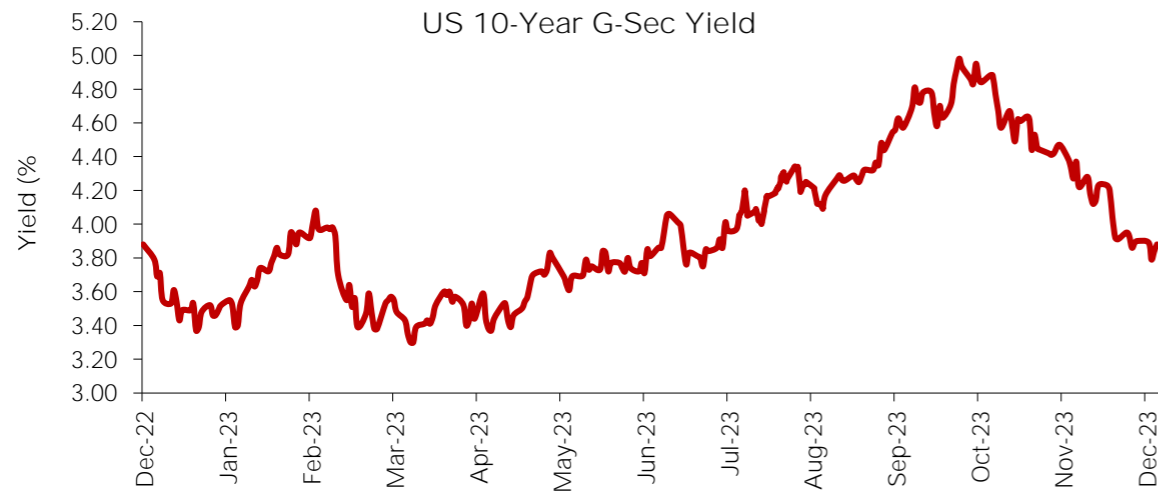
Key Japanese economic indicators

- The country's trade deficit stood at JPY 776.94 bn in November from deficit of JPY 661 bn in October.
- Industrial Production decreased 1.40% on year in November, following a 1.1% rise in October

Source: CRISIL, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

US treasury prices rose in December

- US Treasury prices rose in December. Yield on the 10-year Treasury settled at 3.87% on December 29, 2023, compared with 4.35% on November 30, 2023.
- Bond prices rose, as a slew of economic data and comments from few Fed officials suggested that Fed may end its rate-hike cycle soon.
- However, at the end of the month, yields gained slightly after the Fed officials stifled expectations of an interest rate cut in the first quarter of 2024.



Global bond yields			
	29-Dec	30-Nov	Change
US 10-Year (%)	3.87	4.35	-0.49
UK 10-Year (%)	3.54	4.21	-0.68
German 10-Year (%)	2.03	2.45	-0.42
Japan 10-Year (%)	0.62	0.68	-0.06

US treasury yield rose on prospects of higher rates for longer

Source: CRISIL, Bloomberg, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

Economic Events Calendar

Date	Indicators	Previous
11-January-24	US Inflation Rate, December	3.1%
12-January-24	UK GDP, November	0.3%
	India Inflation Rate, December	5.55%
	India Industrial Production, November	11.7%

Source: CRISIL, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.
 US- United States, UK- United Kingdom, GDP- Gross Domestic Product, WPI- Wholesale Price Index

Economic Events Calendar (cont'd)

Date	Indicators	Previous
15-January-24	India WPI Inflation, December	0.26%
17-January-24	Eurozone inflation rate, December	NA
	UK inflation Rate, December	3.9%
	China GDP, Q4	4.9%
22-January-24	China Loan Prime Rate 1y, December	3.45%
23-January-24	Japan BOJ policy rate decision	-0.1%
25-January-24	US GDP Growth Rate, Q3	NA
	Eurozone ECB Interest Rate Decision	4.50%
30-January-24	Eurozone GDP Growth Rate QoQ Flash Q4	-0.1%
31-January-24	India Fiscal Deficit, December	INR 9066 billion

Source: CRISIL, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.
 US- United States, UK- United Kingdom, GDP- Gross Domestic Product, PCE – Personal Consumption Expenditure

Annexure Indian Economic Environment

Other major developments

- The government announced the interest rates applicable for small savings schemes in the quarter ending March 31, 2024. Interest rates have been hiked for select small savings schemes (including the Sukanya Samriddhi Account Scheme) and post office schemes such as three-year time deposits. However, the interest rate for the Public Provident Fund was kept unchanged at 7.1%
- Following a meeting between the Minister of Commerce and Industry Piyush Goyal and the US Secretary of Commerce Gina Raimondo, India and the US agreed to strengthen cooperation in sectors such as pharmaceuticals, semiconductors, critical minerals and emerging technologies
- Japan International Cooperation Agency finalised a loan of approximately Rs 932 crore to support Sustainable Development Goal initiatives in India. The loan will fund projects overseen by the NITI Aayog, which are set to impact 112 aspirational districts and 500 aspirational blocks nationwide
- The Parliament passed the Telecommunications Bill, 2023, to reform the country's century-old telecom law, based on the Indian Telegraph Act, of 1885, the Wireless Telegraphy Act (1933), and the Telegraph Wires (Unlawful Possession) Act (1950)
- The finance ministry has invited bids for the empanelment of merchant bankers and legal advisors to assist the government in central public sector enterprises disinvestment transactions undertaken through offer for sale (OFS) and stock market dribbling
- The Cabinet approved a memorandum of cooperation signed between India and the Kingdom of Saudi Arabia on cooperation in the fields of digitisation and electronic manufacturing
- The Union Cabinet gave its ex-post facto approval to the proposal of the Ministry of External Affairs to sign and ratify the Migration and Mobility Agreement with the Italy's government.
- The Union Cabinet also approved an MoU signed between India's Department for Promotion of Industry and Internal Trade, the Ministry of Commerce and Industry and Italy's Directorate General for the Protection of Industrial Property-Italian Patent and Trademark Office of the Ministry of Enterprises and Made in Italy on co-operation in the field of industrial property rights
- The RBI intensified its scrutiny of consumer finance services, including peer-to-peer lending by asking the platforms to halt certain activities after inspections revealed misleading sale practices and rule violations.

Regulatory developments in the month

- The RBI announced the setting up of a unified regulatory framework to regulate entities involved in connected lending. The move is aimed at curbing the influence of entities or persons in position to control or influence the decision of a lender
- The RBI decided to lay down a regulatory framework for the web-aggregation of loan products to address concerns about certain loan products harming customer interests
- The RBI announced the setting-up of a fintech repository by April 2024 for developing a better understanding of developments in the fintech ecosystem and to support the sector
- The RBI raised Unified Payments Interface transaction limits for payments to hospitals and educational institutions from the erstwhile Rs 1 lakh per transaction to Rs 5 lakh
- The RBI revised the methodology for designating a bank as a Domestic Systemically Important Bank by incorporating digital payments, value as well as volumes, under the substitutability indicator in the assessment
- The RBI extended the Payments Infrastructure Development Fund scheme till December 31, 2025. The scheme was launched in 2021 for three years

Key economic indicators released in the month

- India's industrial production measured by the index of industrial production accelerated to a 16-month high of 11.7% on-year growth in October, up from 5.8% in September.
- Meanwhile, the delayed onset of the festive season moderated the growth rate of the output of India's eight core sectors, from 12% on-year in October 2023 to 7.8% in November. Nonetheless, this was faster than the 5.7% expansion recorded in November 2022, supported by double-digit growth in coal (10.9%) and refinery products (12.4%).
- In November 2023, India's overall exports (merchandise and services) increased by a modest 1.2% on-year to \$62.58 billion. The growth, which came despite a 2.8% decline in merchandise exports, was supported by an estimated 6.5% on-year increase in service exports. Interestingly, on a sequential basis, the country's merchandise trade deficit narrowed to \$20.58 billion in November from \$31.46 billion in the preceding month. This was due to a sharp decrease in imports (from \$65.03 billion in October to \$54.48 billion in November), particularly with respect to gold, petroleum, crude & related products, and electronic goods, among others.

Source –CRISIL, Data as on 29 December 2023, Past Performance may or may not be sustained in future. Investors should not consider the same as investment advice.

RBI- Reserve Bank of India GDP- Gross Domestic Product

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